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SUBJECT: GOES APPROVES \$42 MILLION TRANSPORTATION SUBSIDY

¶1. (U) SUMMARY: The Salvadoran government has approved \$42 million subsidy for public transportation intended to avoid bus fare increases through mid-2009. Public transportation providers called off a threatened strike, but failed to reach agreement on transportation reforms and refused to promise that fares will remain stable through mid-2009. Taxi owners, cargo transporters and private citizens criticized a 10 cent per gallon fuel tax established to pay for the subsidy and lobbied congress to repeal this tax. Politically influential transportation groups have used GOES concern over pocketbook issues affecting the 2009 elections to restore a controversial subsidy that had been twice eliminated in the past five years. END SUMMARY.

ADMINISTRATION CLAIMS ITS FOR THE PEOPLE

¶2. (SBU) On November 29, the GOES approved a plan to subsidize public transportation through a new 10 cent per gallon tax on gasoline and diesel. Beginning in January 2008, buses and minibuses will receive monthly payments of \$400 and \$200 respectively for 20 months, at a total cost of \$42 million. Bus and minibus operators were demanding fare increases of 5-15 cents or 20-50% after diesel prices rose 25% in 2007. The GOES noted that the subsidy will benefit 85% of the population using public transportation while the tax will only affect 15% who own vehicles. The Ministry of Economy also underscored the importance of public transport fares to low income families who spend 15% of their income on bus fares and would be hard hit by any fare hike. Though, we heard privately from a reliable source that the Administration's economic team was not consulted prior to the decision to impose the new tax.

¶3. (U) The GOES announced that in order to receive the subsidy bus owners will be required to pay outstanding fines, renew any expired registration and fulfill service requirements. It also called for additional conditions, including mandatory training classes aimed at improving customer service. Bus operators denied approving specific reforms. They also contradicted the GOES claim that transport fares would be frozen through 2009, stating that they only agreed to call off their strike and "continue talking" with the GOES.

¶4. (U) In the past, bus owners have commonly ignored fines, allowed their registration to expire and operated illegally, knowing that the GOES rarely sanctions illegal bus operators but has repeatedly exonerated their fines. Bus drivers are nearly universally vilified by their clients, due to the poor conditions of many of the buses and the reckless driving of the bus drivers, which have caused numerous deaths. The Vice Minister of Transportation said bus operators know that public opinion is against them. He told the press recently that the people don't want to give them (bus owners) "even one cent" in subsidies. He added that bus drivers have earned their moniker "asesinos volantes" or "flying killers" for their reckless driving habits.

BETTER ALTERNATIVES?

¶5. (U) Cargo transporters, taxi drivers and private vehicle owners criticized the new tax, arguing that it will have an inflationary effect, effecting prices for any good that is transported. Truck and taxi drivers threatened to strike and block roads when the tax was instituted on December 1, but they later agreed to negotiate with the GOES. Cargo transporters have lobbied legislators to repeal the new tax and urged the GOES to use another revenue source such as a "sin tax" on liquor and cigarettes or offer a VAT tax exemption to subsidize public transportation. Some members of the opposition FMLN party have publicly opposed the new fuel tax but it retains majority support in Congress, in part because of the personal interests of some legislators, as discussed below.

BACKGROUND: HISTORY OF SUBSIDIES AND ABORTED REFORMS

¶6. (U) Public transportation in El Salvador is provided by privately-owned bus companies operating an estimated 7,500 buses and 4,000 minibuses on prescribed routes with fares approved by the Vice Minister of Transport in the Ministry of Public Works. The Saca administration has appointed four different Transportation Vice Ministers tasked with reforming public transportation and negotiating with bus associations to avoid fare increases.

¶7. (U) Transporters have a long history of receiving subsidies while resisting efforts to modernize the fleet and improve services. The sector benefited from fuel subsidies from 1974 until they were eliminated in 2002. In October 2005, they convinced the GOES to establish a new subsidy for buses and minibuses after pressuring for bus fare hikes due to a 25% increase in diesel fuel prices. Under that program, bus owners received direct payments linked to their volume of business. The GOES eliminated that public transportation subsidy in June 2006 but agreed to increase fares by \$0.10 to avoid another threatened strike.

¶8. (U) Under prior subsidy programs, the GOES had little success imposing conditions to modernize the bus fleet and improve service quality. The GOES required bus owners to retire older buses while offering credit for purchase of new vehicles but Congress repeatedly postponed the retirement of old vehicles and only one requirement was implemented in 2005 to retire vehicles more than 25 years old. The GOES also tried unsuccessfully to require bus owners receiving a subsidy to receive training in driving skills and customer service. In 2005, the GOES announced a requirement for registered buses to undergo regular mechanical inspections, however the Italian company that won the inspection contract failed to execute the contract after it was implicated in a corruption scandal involving contracts with the state water company (ANDA).

POLITICAL INFLUENCE

¶9. (SBU) The public transport associations have effectively used their political influence in the Legislative Assembly to support subsidy programs and delay reforms. A prominent legislator from the National Conciliation Party (PCN), Elizardo Lovo, owns a bus company and is well known for promoting the sector's interest. The opposition Frente Farabundo Marti para la Liberacion Nacional (FMLN) includes many bus owners who have joined the PCN, normally part of the ruling coalition, to support several amnesties for fines on bus operators. This coalition has also repeatedly approved decrees to postpone the retirement of older vehicles. In addition to the economic interests of some legislators, bus owners also benefit from their ability to bring voters to the polls during elections.

COMMENT

¶10. (SBU) Politically influential transport groups have used GOES concern over pocketbook issues to restore a controversial subsidy that was twice eliminated in the last five years. While the subsidy has averted the immediate threat of a crippling transportation strike, the new fuel tax has rankled other vehicle owners, is likely to drive up other prices and has aroused pressure from cargo transporters for their own concessions. With gasoline prices already setting record highs, the Administration's tacking on an additional ten cents a gallon to those costs does not make much

economic or political sense.

¶11. (SBU) The Administration, preoccupied by the 2009 elections and the more moderate appearing FMLN Presidential candidate, apparently intended to curry populist favor with the new tax. However, the tax is more likely to be viewed as ARENA helping a few politically-connected interest groups, who traditionally have not been very responsive to the people's interests. Saca had also pledged to fix the public transportation problem when he took office. This effort will certainly not fulfill that promise. As the end of his term draws nearer, he has his staff focused on fulfilling other campaign pledges.

Glazer